



City of San Diego



**CARL DEMAIO**  
CITY COUNCILMEMBER – DISTRICT 5

**TONY YOUNG**  
CITY COUNCILMEMBER – DISTRICT 4

## MEMORANDUM

DATE: May 13, 2010

TO: Eduardo Luna, City Auditor  
Audit Committee Members  
Honorable Mayor and City Council

FROM: Councilmember Tony Young   
Councilmember Carl DeMaio 

RE: Performance Audit of SDCERS Administrative Budget

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As you prepare your Audit Work Plan for FY 2011, we respectfully request the inclusion of a performance audit on Administrative and Investment Management expenses at the San Diego City Employee Retirement Services (SDCERS).

As plan sponsor, the City of San Diego includes a section on SDCERS administrative expenses in its budget every year, although these expenses are funded indirectly through the Annual Required Contribution (ARC) to the pension system. In FY 2010, the city's budget allocated \$39.3 million for the city retirement system, reflecting an increase of more than 18% since the FY 2006 budget of \$33.2 million.

Furthermore, SDCERS recently provided the City Council with a presentation on its FY 2011 budget. This presentation shows its Investment Management expenses are up by \$3.8 million (15.3%) from the previous year, equating to a total of \$28.7 million.

Given the significant size and increase of these SDCERS expenses, and the impact of these expenses to City of San Diego taxpayers, we request that the City Auditor include a Performance Audit of the SDCERS administrative budget in the FY 2011 Work Plan.

To this end, the acting Administrator of SDCERS indicated they would fully cooperate with such an audit at the May 5, 2010 City Council budget hearing.

This Performance Audit could include, but not be limited to, the following issues:

- A comparison of SDCERS' expenses to those of similar (comparable) plan administrators
- Identification of existing opportunities for cost-savings and efficiencies
- Evaluation of structure of investment fees and a comparison of passive vs. active investment fees and related risk and reward scenarios

We appreciate your consideration of this request, and look forward to working with you to craft the scope of the performance audit.